

**STATE OF NEW HAMPSHIRE**  
**Inter-Department Communication**

**DATE:** September 29, 2021

**FROM:** Audit Staff, Division of Enforcement  
NH Department of Energy

**SUBJECT:** Northern Utilities, Inc., Regulatory Cost Adjustment Mechanism  
**FINAL** Audit Report DG 21-123

**TO:** Tom Frantz, Director, Regulatory  
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**INTRODUCTION**

HB 700 established a methodology for valuing utility distribution assets for property tax purposes, codified as RSA 72:8-d and –e, for implementation August 2019. The statute reads:

**TITLE V**  
**TAXATION**  
**CHAPTER 72**  
**PERSONS AND PROPERTY LIABLE TO TAXATION**  
**Property Taxes**  
**Section 72:8-d**

**72:8-d Valuation of Electric, Gas, and Water Utility Company Distribution Assets. –**

I. In this section:

- (a) "FERC" means the Federal Energy Regulatory Commission.
- (b) "Utility company assets" means the following property not exempt under RSA 72:23:
  - (1) For an electric company providing electricity service to retail customers: the distribution poles, wires, conductors, attachments, meters, transformers, and substations accounted for by the utility in accordance with FERC Form 1, buildings, contributions in aid of construction (CIAC), construction works in progress (CWIP), and land rights, including use of the public rights of way, easements on private land owned by third parties, and land owned in fee by the electric company, so long as such easements and fee land are associated solely with distribution power lines classified as distribution according to FERC standards.
  - (2) For a gas company providing gas service to retail customers: distribution pipes, fittings, meters, pressure reducing stations, buildings, contributions in aid of construction (CIAC), construction works in progress (CWIP), and land rights including use of the public rights of way, easements on private land owned by third parties, and land owned in fee by the gas company.

(3) For a water company providing water service to retail customers: pipes, fittings, meters, wells, pressure/pump stations, buildings, contributions in aid of construction (CIAC), construction works in progress (CWIP), and land rights including use of the public rights of way, easements on private land owned by third parties, and land owned in fee by the water company. No electric power fixtures employed solely as an emergency source of electric power in a public water distribution system shall be taxable.

(c) "Utility company assets" shall not include:

(1) Electric company transmission poles, wires, conductors, attachments, meters, transformers, and substations, classified as transmission according to FERC standards, buildings associated with transmission, and land rights, including easements on private land owned by third parties, and land owned in fee by the electric company, so long as such easements and fee land are associated with transmission power lines classified as transmission according to FERC standards.

(2) Electric generation facilities and associated land rights, whether in fee or by easement.

(3) Gas transmission pipeline facilities regulated by FERC and associated land rights, whether in fee or easement.

(4) Wholly owned telephone, cable, or Internet service providers, and large scale natural gas and propane gas liquid storage and processing facility assets.

(5) Fee-owned land, office buildings, garages, and warehouses.

(d) "Retention dam" means a dam constructed for the purpose of impounding drinking water supply.

II. (a) The selectmen or assessors shall appraise utility company assets lying within the limits of the town or city using a unified method of valuing the utility company assets, excluding land rights, according to the following formula:

(1) For electric and gas utility company assets: a weighted average of 70 percent of each asset's original cost and 30 percent of each asset's net book cost as reported in compliance with paragraphs IV and V.

(2) For water utility company assets: a weighted average of 25 percent of each asset's original cost and 75 percent of each asset's net book cost as reported in compliance with paragraphs IV and V.

(b) To the appraisal under subparagraph (a), for the use of public rights of way and private distribution system easements, the selectmen or assessors shall add 3 percent of the valuation determined under subparagraph (a).

(c) The total of subparagraphs (a) and (b), as implemented under paragraph VI, shall be the valuation of the utility company's assets for purposes of local property taxation, and added to the municipality's assessed value of the utility company's fee-owned land, office buildings, garages, and warehouses.

III. Any water utility company land parcel owned in fee for sanitary radii, retention dams, and/or watershed protection purposes which is subject to regulation by the department of environmental services to protect water quality shall be entitled to be assessed under RSA 79-C at the value such land would have been assigned under the current use values established pursuant to RSA 79-A if the land had met the criteria for open space land under that chapter, even if said parcel is less than 10 acres in size and/or has a well structure and related piping on the parcel.

IV. Each utility company shall report by May 1 of each year to the selectmen or assessors of each town or city in which its utility company assets are located and to the department of revenue administration, the original cost and net book value as of December 31 of the preceding year of each account code category of distribution, transmission, and generation assets, if any,

located within such town or city in accordance with FERC Form 1 and/or Form 2 Federal Account Code items.

V. The commissioner of the department of revenue administration shall adopt rules under RSA 541-A for the forms and requirements for the reporting under paragraph IV. Such reporting requirements shall also include an obligation on the utility company with utility company assets to utilize an accounting system to report and track with the best information available, in an efficient, equitable and transparent manner using the best information then available from the utility company's accounting records, contributions in aid of construction (CIAC), construction works in progress (CWIP), and undistributed plant assets in each town or city and the original cost of each such asset as reported by the contributing entity.

VI. (a) The assessed value of all utility company assets existing and assessed as of April 1, 2018 determined in subparagraph II(c) shall be implemented over a 5-year period as follows:

(1) The value for assessment of property taxes for the tax year effective April 1, 2020 shall be a weighted average of 80 percent of the final locally assessed value effective April 1, 2018 and 20 percent of the apportioned value determined under subparagraph II(c) effective April 1, 2020.

(2) The value for assessment of property taxes for the tax year effective April 1, 2021 shall be a weighted average of 60 percent of the final locally assessed value effective April 1, 2018 and 40 percent of the apportioned value determined under subparagraph II(c) effective April 1, 2021.

(3) The value for assessment of property taxes for the tax year effective April 1, 2022 shall be a weighted average of 40 percent of the final locally assessed value effective April 1, 2018 and 60 percent of the apportioned value determined under subparagraph II(c) effective April 1, 2022.

(4) The value for assessment of property taxes for the tax year effective April 1, 2023 shall be a weighted average of 20 percent of the final locally assessed value effective April 1, 2018 and 80 percent of the apportioned value determined under subparagraph II(c) effective April 1, 2023.

(5) For each of the years in subparagraphs (a)(1) through (4), all utility company assets installed after April 1, 2018, and not included in assessment as of April 1, 2018, shall be assessed at the apportioned value determined under subparagraph II(c) effective as of April 1 of the property tax year. For each of the years in subparagraphs (a)(1) through (4), all utility company assets retired after April 1, 2018, and included in assessment as of April 1, 2018, shall not be assessed.

(6) Beginning with the tax year effective April 1, 2024 and every tax year thereafter the locally assessed value shall be the apportioned value determined under subparagraph II(c) effective as of April 1 of the property tax year.

(b) For purposes of subparagraph (a), "final locally assessed value effective April 1, 2018" means the municipality's value of the utility company's assets as taken from the department of revenue administration's form MS-1 for 2018.

VII. All determinations or decisions under this section shall be appealable by the electric, gas, or water utility company or the town or city by petition to the board of tax and land appeals under RSA 71-B. **Source.** 2019, 117:2, eff. Aug. 20, 2019.

### **Section 72:8-e**

#### **72:8-e Recovery of Taxes by Electric, Gas and Water Utility Companies. –**

For the implementation period of the valuation of utility company assets under RSA 72:8-d, VI and terminating with the property tax year effective April 1, 2024, the public utility commission shall by order establish a rate recovery mechanism for any public utility owning property that meets the definition of utility company assets under RSA 72:8-d, I. Such rate recovery mechanism shall either:

- I. Adjust annually to recover all property taxes paid by each such utility on such utility company assets based upon the methodology set forth in of RSA 72:8-d; or
- II. Be established in an alternative manner acceptable to both the utility and the public utility commission. **Source.** 2019, 117:2, eff. Aug. 20, 2019.

**Filing**

Within the direct testimony of Christopher Goulding, filed on June 21, 2021, on page 6 of 8 is: *“The Company is proposing to recover the increase in property taxes associated with HB 700 in a new rate component included in the Company’s Local Distribution Adjustment Clause (“LDAC”). The new rate component, the Regulatory Cost Adjustment Mechanism (“RCAM”) will also include recovery of the portion of the regulatory assessment not recovered in base rates, which is currently recovered in the Gas Assistance Program & Regulatory Assessment (“GAPRA”). (underline added by Audit for emphasis) The property tax proposal is based solely on HB 700, as opposed to a Commission approved Settlement Agreement or earlier docket.*

The attachment to C. Goulding’s testimony, Schedule CJG-1 page 1 of 1 demonstrates:

Line No.	(1) Description	(2) Total Amount	(3) State	(4) Buildings	(5) Local Utility Plant	(6) Source
1	Prop. Tax Allocation by Type	100%	23.0%	0.7%	76.3%	Allocator based on test year split
2	Base Rates (5/1/2018)	\$ 3,921,196	\$ 902,506	\$ 27,935	\$ 2,990,755	DG 17-070, Sch 3-18 Prop Tax Revised
3	Step 1 (5/1/2018)	\$ 379,685	\$ 87,389	\$ 2,705	\$ 289,591	DG 17-070 Settlement Exhibit 3
4	Step 2 (5/1/2019)	\$ 236,381	\$ 54,406	\$ 1,684	\$ 180,291	DG 17-070 Order 26,246, Appendix 1
5	Total NUNH Prop. Tax Recovery	\$ 4,537,262	\$ 1,044,301	\$ 32,324	\$ 3,460,637	Sum of lines 2 through 4
6	2020 Property Tax Expense	\$ 5,250,429	\$ 1,235,986	\$ 30,220	\$ 3,984,223	GL 30-40-10-00-408-12-00
7	2020 Expense above level in rates	\$ 713,167	\$ 191,685	\$ (2,104)	\$ 523,586	Line 6 minus Line 5
8	Local Property Tax Under-recovery				\$ 521,482	Sum of Columns 4 and 5, line 7

The property tax expense totals on lines 2, 3, and 4 were verified to the referenced sources. More detailed location information follows:

\$3,921,196 DG 17-070 Exhibit 1, Schedule 3-18 Revised, page 1 of 2 as well as to the [17-070\\_2018-04-09\\_NORTHERN\\_ATT\\_SETTLEMENT\\_AGREEMENT.PDF \(nh.gov\)](#) Bates page 50.

\$ 379,685 DG 17-070, Settlement Agreement Exhibit 3, page 1 of 4, Bates page 000123 line 12.

\$ 236,381 DG 17-070, Order 26,246 issued May 1, 2019, Appendix 1, page 1 of 4.

The total calendar year 2020 Property Tax Expense of \$5,250,429 was reconciled to the NH PUC 2020 Annual Report figure of \$4,728,576 found on schedule 25b:

\$5,250,429	CJG-1 line 6
<u>\$ (521,482)</u>	CJG-1 line 8
\$4,729,264	general ledger
\$ 317	Greenland Prior Period Payment
<u>\$ (688)</u>	Prior Period Abatement
\$4,728,576	NH PUC 2020 Annual Report schedule 25b

The NH PUC 2020 Annual Report income statement reflects Taxes Other than Income on line 13 of \$4,867,773.94. That total is comprised of:

<u>General Ledger Account # and Title</u>	<u>12/31/2020</u>
30-40-03-00-408-03-10 Taxes FICA NH	\$ 224,247.22
30-40-03-00-408-04-10 Taxes Federal Unemployment NH	\$ 1,638.88
30-40-03-00-408-06-11 Taxes Unemployment NH	\$ 1,135.17
30-40-03-00-408-08-10 Taxes State Health NH	\$ -
30-40-10-00-408-00-00 Other Taxes	\$ -
30-40-10-00-408-00-01 Other Taxes Capitalized	\$ -
30-40-10-00-408-00-05 Other Taxes-Non operating	\$ -
30-40-10-00-408-01-11 NH BET Tax Exp-Current	\$ -
30-40-10-00-408-02-10 NH Surplus Tax	\$ 10,371.71
30-40-10-00-408-02-18 NH BET Expense	\$ 63,600.00
30-40-10-00-408-10-00 Payroll Taxes Capitalized-NH	\$ (161,795.31)
30-40-10-00-408-10-01 Temp Pyrrl Taxes Capitalized-NH	\$ -
<b>30-40-10-00-408-12-00 Local Oper Propert Tax-NH</b>	<b>\$ 4,729,264.27</b>
30-40-10-00-408-12-01 Local Oper Prop Tax Abatements	\$ (688.00)
30-40-10-00-408-13-00 Property Tax Capitalized-NH	\$ -
30-40-10-00-408-14-00 Motor Veh Excise Tax Exp NH	\$ -
30-40-10-00-408-73-00 Current St Tax REV Dep/Amort	\$ -
NH PUC 2020 Annual Report Income Statement Total	<u>\$ 4,867,773.94</u>

The **bolded** account representing the Property Taxes is \$317 higher than the sum of CJG-1 Column 2, line 6 less Column 5, line 8. The \$317 is related to a 2019 Greenland tax bill correction. The CJG-1 correctly excludes this \$317.

Audit verified the reported calendar year 2020 Property Tax expense details, on line 6 of CJG-1, to pdf copies of actual invoices. Specifically, while the State Utility Property tax total of \$1,235,986 is appropriately not included within the requested proposal to recover \$521,482, Audit did verify the total to the Department of Revenue Notice of Valuation as of 4/1/2020. The municipal invoices are summarized below, by municipality and specific properties:

	<u>1st 2020 issue</u>	<u>2nd 2020 issue</u>	<b>Expensed in CY 2020</b> <u>Total Tax Yr 2020</u>
Atkinson	\$ 7,291.00	\$ 18,110.00	\$ 25,401.00
Brentwood	\$ 6,082.00	\$ 25,736.00	\$ 31,818.00
Brentwood	\$ -	\$ 9.00	\$ 9.00
Dover	\$ 15.11	\$ 14.91	\$ 30.02
Dover	\$ 348,492.35	\$ 425,745.87	\$ 774,238.22
Durham	\$ 104,754.00	\$ 94,458.00	\$ 199,212.00
East Kingston	\$ 6,022.00	\$ 9,285.00	\$ 15,307.00
Epping-annual		\$ 25,528.84	\$ 25,528.84
Exeter	\$ 1,117.73	\$ 1,244.77	\$ 2,362.50
Exeter	\$ 912.28	\$ 1,015.97	\$ 1,928.25
Exeter	\$ 129,866.87	\$ 176,427.88	\$ 306,294.75
Greenland	\$ 7,018.00	\$ 3,675.00	\$ 10,693.00
Hampton	\$ 68,102.00	\$ 66,117.00	\$ 134,219.00
Hampton	\$ 129,493.00	\$ 133,571.00	\$ 263,064.00
Hampton Falls	\$ 270.00	\$ 434.00	\$ 704.00
Kensington	\$ 13,167.00	\$ 13,676.00	\$ 26,843.00
Madbury	\$ 3,654.00	\$ 4,469.00	\$ 8,123.00
Newington	\$ 9,821.79	\$ 13,026.39	\$ 22,848.18
North Hampton	\$ 10,211.00	\$ 16,766.00	\$ 26,977.00
Plaistow	\$ 53,798.00	\$ 139,254.00	\$ 193,052.00
Portsmouth	\$ 267,148.00	\$ 284,169.00	\$ 551,317.00
Portsmouth	\$ 5,267.00	\$ 5,206.00	\$ 10,473.00
Portsmouth	\$ 15,198.00	\$ 15,022.00	\$ 30,220.00
Rochester	\$ 412,981.00	\$ 307,055.00	\$ 720,036.00
Rochester	\$ 1,344.00	\$ 1,478.00	\$ 2,822.00
Rochester	\$ 3,550.00	\$ 3,927.00	\$ 7,477.00
Rollinsford	\$ 1,849.00	\$ 2,543.00	\$ 4,392.00
Rollinsford	\$ 226.00	\$ 268.00	\$ 494.00
Salem	\$ 101,201.00	\$ 86,666.00	\$ 187,867.00
Seabrook	\$ 65,340.00	\$ 103,435.00	\$ 168,775.00
Stratham	\$ 3,553.00	\$ 4,969.00	\$ 8,522.00
Somersworth	\$ 952.00	\$ 857.00	\$ 1,809.00
Somersworth	\$ 846.00	\$ 881.00	\$ 1,727.00
Somersworth	\$ 97,801.00	\$ 152,059.00	\$ 249,860.00
			<u>\$ 4,014,443.76</u>

2020 Property Tax Expense per CJG-1	\$ 3,984,223.00
2020 Property Tax Expense per CJG-1	\$ 30,220.00
2020 Property Tax Expense per CJG-1	<u>\$ 4,014,443.00</u>

Brentwood, for one small parcel, and Epping issue one annual invoice per property, rather than semi-annually as the other municipalities do. First issuance property tax bills are sent to property owners typically in June, based on the prior tax year's tax rate. Second issuance bills are sent to property owners in November or December. The first issuance represents taxes owed for April through September. The second issuance, based on the adjusted tax rate for the year, covers October through March. The three Rochester properties' tax bills are actually the 2019 second issuance and 2020 first issuance. Audit requested clarification of the use of the 2019 bills, and was informed that because the invoices, each dated late December 27, 2019 with due dates of January 28, 2020, were not received by Northern until mid-January 2020, the literal invoice was not paid until calendar year 2020. The Salem first issue 2020 included a credit resulting from an abatement credit from the 2019 tax year, which reduced the invoice from \$101,201 to \$64,206.19, thus understating the first issue. The second issue, in the amount of \$187,867, failed to reflect the payment of the first issue, thus overstating the second issue. The filed figure of \$187,867 for the 2020 calendar year is correct. Seabrook's first issuance also reflected a handwritten abatement credit of \$37,532.37, reducing the invoice total, and two second issuance invoices were provided. The final issuances were the result of splitting the tax account (for town accounting purposes to comply with RSA 72:8-d). The second issuances reflected the adjusted first issuance and the payment received. The tax year total of \$168,775, included in the filing is the sum of the first and second issuances.

**Audit recommends a reduction to the \$4,014,443.76 for the small dollar State Utility property tax expenses included in the following municipal invoices:**

Brentwood	\$ 0.71
Dover	\$ 2.35
Rollinsford	\$ 43.00
Somersworth	<u>\$121.00</u>
	<b>\$167.06</b>

Audit requested clarification of the 2020 Property Tax Expense figure of \$5,250,429, shown above on line 6 as the total. The referenced general ledger account showed \$4,729,264 for the 2020 year-end. The Company indicated that the *“difference between the \$5,250,429 on Schedule C/JG-1 page 1 and the balance on the general ledger of \$4,729,264 is the amount that was deferred for recovery to Account 30-40-00-00-182-15-00 and a prior year bill correction that was expensed in 2020. Additionally, a duplicate payment was discovered as part of the review process prior to making the filing in DG 21-123 and removed from the deferred recovery request. Please see the tables below for the reconciliation of the general ledger accounts to the amounts on Schedule C/JG-1.*

<u>Account Number</u>	<u>Description</u>	<u>12/31/2020</u>
30-40-10-00-408-12-00	Local Oper.Property Tax-NH	\$ 4,729,264.27
	less Greenland 2019 bill correction	<u>\$ (316.50)</u>
	Actual Balance 30-40-10-00-408-12-00	\$ 4,728,947.77
30-40-00-00-182-15-00	Reg Asset-Deferred Property Taxes-NH	\$ 622,682.00
	less Salem 2020 overpayment	<u>\$ (101,201.00)</u>
	Adjusted 30-40-00-00-182-15-00	\$ 521,481.00
	Adjusted general ledger agrees with CJG-1	\$ 5,250,428.77

Audit reviewed account 30-40-10-00-408-12-01, Local Oper Property Tax Abatements-NH and noted one entry in February 2020 which was receipt of a \$316.50 overpayment made to the Town of Newington for 2019. The entry is not included in the filing.

The \$622,682 was credited to account -408-12-00 101,201 on 12/31/2020 and debited to the Reg Asset-Deferred Property Taxes account. The adjustment was based on an initial and informal calculation of a sheet similar to what became CJG-1. The adjusted amount to recover, based on the overpayment to the town of Salem (due to the second issuance not reflecting the first issuance's payment) is correctly reflected in CJG-1. The 12/31/2020 general ledger does not reflect the \$(101,201) adjustment, nor does it appear that it has been reflected as of 3/31/2021.

Audit requested further clarification of the expensing of bills as paid, rather than expensing them based on the tax year, and was informed that the Prepaid Property Tax account 30-40-00-00-165-11-00 is debited with estimates for each municipality. As property tax invoices are received, the -165 account is credited and the 30-40-10-00-408-12-00 Property Tax Expense account is debited.

### **Regarding DG 21-123 and DG 21-104**

Audit explicitly requested clarification of the instant docket with the Property Tax Expenses that will be reflected in the 2020 Northern Utilities rate case, docketed as DG 21-104. That total, shown on schedule 3-19, sums to \$5,346,200 which is \$95,770 higher than this filing's combined state and municipal filing of \$5,250,429. Audit requested clarification of the variances, which were identified for:

Dover DG 21-104 higher than DG 21-123 by	\$ 77,254
Portsmouth DG 21-104 higher than DG 21-123 by	\$ 16,784
Rochester DG 21-104 lower than DG 21-123 by	\$(121,867)
State Utility Tax DG 21-104 higher than DG 21-123 by	<u>\$ 123,599</u>
Total	\$ 95,770

The difference were identified by the Company to be based on using the second issuance invoices in full, rather than the full payment of the first issuance and prepayment of the second issuance (for the 2019 and 2020 calendar years). The State Utility tax difference is due to using



the valuation identified by the NH Department of Revenue as of April 2021, the most recent valuation.

The Company indicated that because the proposed RCAM will be an annual reconciling mechanism for five consecutive years, the settled base rate inclusion resulting from DG 21-104, and any step adjustments' property tax expenses, will replace the figures in the current CJG-1 relating to DG 17-070.

**Conclusion**

Based on a review of the general ledger and the Northern Utilities' 2020 municipal property tax invoices, the proposal to recover \$521,482 should be reduced by \$167, resulting in an adjusted figure of \$521,315.